



Report of the Cabinet Member for Economy, Finance and Strategy

Cabinet – 18 May 2023

Strategic Partners Energy Costs Financial Support 2023/2024

Purpose:	To seek Cabinet approval for the levels of financial support needed for the period April 2023 to March 2024 for our strategic partners (Freedom Leisure, Wales National Pool and Swansea Arena) specifically related to increased energy costs, including overall likely additional levels of partnership underwriting required specifically for Wales National Pool for the same period
Policy Framework:	Creating an Active and Healthy Swansea; City of Sport; Transforming our Economy and Infrastructure; Medium Term Financial Plan
Consultation:	Legal, Finance, Access to Services.
Recommendations:	It is recommended that Cabinet: <ol style="list-style-type: none">1) Approves financial support to Freedom Leisure until 31st March 2024 to fund the significant increased energy costs of £1,020,570 in addition to the payment of the contractual monthly management fee for the financial year 2023/2024, with all payments reconciled under an open book approach2) Approves the extension of financial relief to Wales National Pool Swansea (WNPS) to include Council underwriting of an additional deficit including increased energy costs of up to £200k for financial year 2023/20243) Approves financial contribution of up to £210k in 2023/24 to fund energy costs above those forecasted in the business plan for Swansea Arena, with payments made to Ambassador Theatre Group being reconciled under an open book approach.4) Delegates authority to the Director of Place to agree any changes to service specification, the terms and conditions attached to any offer of underwriting or other support measures including authority to vary the

level and period of financial relief providing that the total of all such variations are within the scope of the budget approval for financial relief within recommendation 1,2 and 3

- 5) Delegate's authority to the Chief Legal Officer to enter into any documentation necessary to implement any of the recommendations in this report and to protect the Council's interests.

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Legal Officer: Debbie Smith

Access to Services Officer: Rhian Millar

1. Introduction

- 1.1 The past three years has been tough for leisure and cultural operators and whilst post pandemic recovery has been challenging, it has become increasingly apparent that the rapidly worsening economic climate is becoming a greater, and likely to be of more lasting concern, than that of the pandemic
- 1.2 With inflation currently running well into double figures, and with no obvious sign of immediate recovery, the impact on footfalls and running costs is significant, as disposable income is impacted with unprecedented energy cost increases and escalating retail prices. Operating costs have increased over the last few years, mainly due to increases in salaries, insurance and utilities, all of which are largely uncontrollable costs.
- 1.3 Energy cost increases, the cost-of-living crisis and rises in inflation will impact the continuation of providing sustainable successful services and facilities within existing financial budgets. Should the partnerships not withstand these external economic shocks, then vital health and wellbeing opportunities, services and facilities could be at risk of being lost and in turn increase pressure on other local and central government services, such as Health and Social Care.
- 1.4 Energy cost increases are a national issue, with leisure facilities and in particular those operators of large facilities, including swimming pools, theatres, and events spaces due to their high utility requirements being significantly impacted. This is despite various energy saving mitigations already put in place.
- 1.5 Whilst leisure facilities are consistently in the top 5 most carbon intensive buildings in a local authority area, leisure trusts are unable to make further investments without sustainable financial support into their services.

- 1.6 Following the pandemic significant support was provided to our partnerships under previous approvals and the Council ensured the sustainability of the partnerships through ongoing monitoring and dialogue. The recovery partnership liaison has continued on a monthly basis or at relevant board meetings and working groups set up to specifically monitor current and future operations, costs and pressures.
- 1.7 The Council has previously provided financial support to ensure the delivery and viability of a number of key strategic partners that operate valuable community facilities and attractions for Swansea residents and visitors to the City. Additionally, the Council has continued to invest and develop capital improvement and energy saving measures into these facilities under these partnerships, which continued throughout pandemic and post pandemic period.
- 1.8 This report sets out a further strategic request to continue to utilise dedicated financial resources to deal with the immediate energy crisis impacts and is leading the way as a Local Authority in Wales to recognise and support this issue, ensuring that the venues, attractions and long term partnerships remain sustainable.
- 1.9 For the purposes of this report, Freedom Leisure, Wales National Pool Ltd and Swansea Arena/Ambassador Theatre Group (ATG) may be referred to more generally as Trust, Contractor or Operator.

2. Freedom Leisure

- 2.1 Freedom Leisure are in year 6 of a 19.5 year contract and have yet to experience a full 'normal year' due to the Covid-19 pandemic. The pandemic may be over and whilst good recovery has been made the increase cost of energy will have a significant impact on their operation.
- 2.2 The commercial financial predictions by Freedom Leisure remain fluid and only based upon the information available at the time of reporting and related only on the Swansea contract basis, not the broader financial position of the Trust.
- 2.3 Any approved support would adopt a continued open book accounting process which has worked effectively to support the partnership in an open and transparent manner since 2020. A continued monthly process of reviewing detailed accounts in arrears and invoicing accordingly will continue. This report does not seek to pay Freedom leisure any inflated upfront revenue, but to continue operating in an open book, payment in arrears manner, limiting liability on the Council.
- 2.4 In line with the contract award to Freedom Leisure in 2018, an agreed annual management fee of £987,026 in 2023/24 will be paid as normal. In line with the bid projections, this is a considerable reduction from the £1.9M management fee payment, which was the cost per annum in 2018 and 2019 (years 1 and 2 of the contract).

- 2.5 As part of the original £5.1m Capital improvements, and as a result of more recent investments, Freedom Leisure have already undertaken a number of mitigating actions and support measures including numerous changes in habit and good housekeeping in order to drive down the amount of energy used daily and reduce the overall cost. However, the reality is that the unit cost of both gas and electricity is significantly higher even when less energy is used.
- 2.6 Following recent energy surveys carried out by Freedom Leisure, the key recommendations for energy investment focussed upon the two largest sites: The LC and Penlan Leisure Centre. Investment is likely to involve installation of air source heat pumps and Solar PV. Such spend to save investments likely to be significant in costs (£3m plus) and requires a robust funding strategy which seeks contributions from various grant funders and others means will need to be further developed in order to formalise future requests for Council contribution to support this agenda.
- 2.7 Table 1 details the forecasted energy costs for 2023/24 for the Swansea portfolio of facilities operated by Freedom Leisure in partnership with the Council. The total impact of the latest energy price forecast suggests an increase in utility costs in 2023/24 of £1,020,570.

Table 1:

Swansea Partnership - Expected Utility Increases from 1 April 2023						
Site Name	Type	Full Year Cost Current Tariffs	2022-23		Agreements from 1 April 23	
			Cost Increase	Total Cost	2023-24 Total Cost	2023-24 Cost Increase
The LC	Gas	176,582	275,620	452,202	500,833	324,251
	Electricity	339,571	237,574	577,145	751,144	411,573
Bishopston Sports Centre (DU)	Gas	2,097	-	2,097	15,444	13,347
	Electricity	8,518	-	8,518	30,888	22,370
Cefn Hengoed Leisure Centre (DU)	Gas	6,500	-	6,500	10,811	4,311
	Electricity	7,500	-	7,500	10,811	3,311
Elba Sports Centre	Gas	-	-	-	-	-
	Electricity	26,292	9,085	35,377	48,711	22,419
Morryston Leisure Centre (DU)	Gas	15,792	-	15,792	46,332	30,540
	Electricity	39,146	-	39,146	92,664	53,518
Penlan Leisure Centre	Gas	70,796	43,953	114,749	119,651	48,855
	Electricity	73,917	13,296	87,213	59,780	14,137
Penyrhoel Leisure Centre (DU)	Gas	29,360	-	29,360	61,776	32,416
	Electricity	51,519	17,555	69,074	119,315	67,796
Total Utilities	TOTAL	847,590	597,083	1,444,673	1,868,160	1,020,570

- 2.8 The 2023/24 increased costs are £1.02m higher than 2019/20 cost on their previous tariffs.
- 2.9 Freedom Leisure have fixed electricity contract and a flex gas contract. These contracts cover the LC, Penlan Leisure Centre and the Elba Sports Complex.
- 2.10 All joint use sites (Bishopston Sport Centre, Cefnhengoed Leisure Centre, Morryston Leisure Centre and Penyrhoel Leisure Centre) are on the Council's Utility contract. The utility costs are charged per site which cover the schools and leisure facilities. Freedom Leisure pay an agreed

percentage of the utility costs, shared with the joint school, which have been agreed and underpinned by local operational agreements with schools and overarching management contract with the Council.

- 2.11 To continue operating the facilities at current levels it is requested that the Council fund the 2023/24 increased energy costs of up to £1,020,570. This is the difference between costs on tariffs pre price increases and the likely future energy costs per annum.
- 2.12 Freedom Leisure are taking a contract-by-contract approach in order to seek support from their partners to ensure each contract remains sustainable. Without appropriate mitigation and support per contract, the sustainability of the partnership with Freedom Leisure to operate the Council facilities and delivering our services is at significant risk.

In order to help mitigate future rising costs and protect cash flow, Freedom Leisure are making changes to their central overhead costs through restructuring. Across their portfolio exploring the options of temporary closures to some services/facilities and a reduction in their workforce where support is not being provided. It is important to note that any amendments to the services provided, will be done in consultation with the Council and with fully funded support, any future risk on service provision in Swansea is significantly reduced.

- 2.13 Freedom Leisure have previously stated that if no support is available, they would have no other option than to consider the overall viability of the contract as a result of the significant increases in energy costs. In this scenario, the financial impact of services returning back to the Council to operate is likely to be at a significantly increased cost, in addition to the increases in energy. The costs of operating the services are likely to increase as a result of Council staff terms and conditions and pension for all staffing, including the LC staff, plus NNDR costs, lack of commerciality and specialist support required to deliver the leisure facilities and associated services.

3. Wales National Pool Swansea (WNPS)

- 3.1 Swansea Council and Swansea University are contractually bound to underwrite the annual deficit of WNPS until December 2023 when the current agreement ends.
- 3.2 The partners are currently exploring future operating models for this facility and the wider Swansea Bay Sports Park which coincides and will deal with the future funding obligations of partners. Whilst this is being undertaken an extension to the contract has been agreed to the 31st March 2024.
- 3.3 Budget savings for the Council were presented to Cabinet for 2023/24, following consultation these have been deferred to 2024/25
- 3.4 It is important to note that WNPS financial year straddles the Councils. WNPS financial year runs from August to July.

- 3.5 A typical trading year pre pandemic for WNPS would result in contributions per partner of £302,800.
- 3.6 The Council has £302,800 budgeted for 23/24 plus carry forward support fund from the previous year to allocate towards the Council's contribution of the 2023/24 deficit. The carry forward amount is the additional support agreed within a previous Cabinet report.
- 3.7 WNPS previous monthly energy costs were around £26k per month, £312k per annum. Since the increase in energy prices 2023/24 costs are forecast at £55.6k per month, £667k per annum.
The below two tables detail the WNPS actual and forecast energy costs between August 2022 and July 2024

Table 2: WNPS Utility Cost Forecast - August 2022 to July 2023

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Total
Gas	2,456.23	6,489.27	11,707.59	15,607.38	29,705.22	19,752.08	16,784.48	16,367.42	30,941.24	20,193.36	13,191.47	12,039.61	195,235.35
Electricity	20,185.95	19,397.60	25,000.67	24,839.19	24,935.58	25,974.93	14,237.72	19,218.32	23,665.80	23,095.79	28,742.99	29,314.32	278,608.86
Water	1,961.48	1,761.54	2,565.05	2,000.00	2,000.00	2,200.00	2,081.32	2,081.32	2,081.32	2,081.32	2,081.32	2,081.32	24,976.00
													498,820.21

*Green are actual costs / red are forecast

Table 3: WNPS Utility Cost Forecast - August 2023 to July 2024

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Total
Gas	24,285.31	24,853.81	46,553.42	29,738.53	23,620.31	26,633.75	20,181.75	27,305.01	26,616.84	27,961.33	26,040.76	27,371.36	331,162.18
Electricity	12,215.00	13,504.35	31,962.91	33,627.25	35,759.09	38,503.65	35,827.94	35,985.74	20,070.02	17,783.65	15,511.52	14,934.95	305,686.07
Water	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	2,185.42	26,225.00
													663,073.25

- 3.8 These increases present an additional £355k for 2023/24 energy costs, of which the Council will be liable 50% based on the share of the net deficit.
- 3.9 As these figures are estimated based upon current projections it is requested the Council support the 2023/24 increased energy costs of £200k. This in addition to the monies highlighted in 3.6 will cover the projected net deficit contribution by circa £600k for 2023/24.

4.0 Swansea Arena, Copr Bay

- 4.1 Ambassador Theatre Group were selected following a competitive procurement exercise as the Operator for the new Swansea Arena which was built as part of Copr Bay, Swansea's £135m city centre regeneration scheme. A 30-year Fully Repairing and Insuring lease was entered into with Ambassador Theatre Group (ATG), commencing in February 2022 on completion of the Arena, which was constructed throughout the height of pandemic.
- 4.2 In the first year of operation, the venue has hosted 56 ticketed performances for a host of high-profile music, comedy and theatre shows. Over 250,000 people attended the Arena over the first 12 months of opening and the venue has hosted 21 sell out shows and with an overall average occupancy of 80%, which has far exceeded the original predictions. In addition, the Area has held 85 further events (conferences

and corporate events) outside of ticketed performances, which is 25 above forecast. A significant 141 days committed to events was achieved in the first year of operation.

- 4.3 Despite the success of the venue and the activity to date, the first year of operation has proved challenging for several reasons. The after effect of the pandemic and impact on the industry being key, together with the cost-of-living crisis and most significantly the rise in energy prices which this report further highlights.
- 4.4 Initial business plan forecast for energy costs for 2022/23 was £177,338, but actual costs came in at £694,429, and therefore £517,091 more than anticipated. Strong income thorough commercial activity, energy saving measures through initial investment and good housekeeping have mitigated this figure, but it is a reality that the wholesale cost of energy is significantly higher than originally budgeted. As referenced in Table 3
- 4.5 ATG have flexible energy contracts in place, and this is anticipated to result in a reduction in their energy bills in the current 2023/24, compared to 2022/23.
- 4.6 ATG's estimated energy costs for 2023/24 is £402,813, which is £235,617 above their original business plan forecast, and with small deduction for recharged energy costs associated with the venues operation, the cost to the operation is predicted to be £208,347 in excess of original budget. As referenced in Table 3
- 4.7 In order to support ATG through this challenging period whilst the venue continues to grow its business through commercial activity and further establishes itself during the early years to reach its full potential in the mature years, it is requested that the Council fund the predicted increase in energy costs in year 2023/24, of up to £210,000.

5. Integrated Assessment Implications

- 5.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
 - Deliver better outcomes for those people who experience socio-economic disadvantage
 - Consider opportunities for people to use the Welsh language
 - Treat the Welsh language no less favourably than English.
 - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.
- 5.2 The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.
- 5.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.
- 5.4 An IIA screening form has been completed, with an agreed outcome that a full IIA report is not required at this stage.
- 5.5 The Cabinet report sets out the financial implications following the impact of the significant increased energy costs being felt by our strategic partners who operate Council services and facilities on a day-to-day basis, and directly deliver shared wellbeing goals, and vital community, public and education facilities on behalf of the Council. The report sets out the levels of financial support that the operators require during 2023/24 to sustain the current challenges.
- 5.6 The report is to inform a decision to sustain the current leisure and cultural services so that there is no negative impact on the users. Not acting or supporting our partners would impact on the service and facilities provided to the residents and visitors of Swansea.

- 5.7 The facilities operated by the partners contained within the report are varied and provide a range of services to all groups of society and the general public which support their wellbeing, health and cultural experiences in a variety of ways.
- 5.8 The impact of the Council not supporting these partners will ultimately mean that the services are put at risk of failure or cessation. Intervention through funding support from the council now provides partners with the greatest chance of reducing future financial impacts. Losing or significantly reducing such services provided could therefore have a significant impact on the groups of the communities that they serve. The types of groups that use these facilities vary greatly but include disabled people, older people, single parents (who are mainly women) children and young people and engagements with those most vulnerable and need supporting in our society by providing engaging and welcoming spaces and places to use and feel comfortable. This extends to religious groups and ceremonial activities all facilities.
- 5.9 Officers consulted with national agencies such as the Chief Leisure Officers forum, WLGA, Sport Wales, Welsh Sports Association and Welsh Govt. as well as industry sector representatives regarding the challenges facing the Cultural and Leisure sector.
- 5.10 In direct dialogue with our partners, officers have assessed the financial needs and consulted appropriately.
- 5.11 The report relates to the Council's ability to financially support the strategic partners in the context of the energy crisis to the end of March 2024, with no intention to undertake public consultation or other stakeholder consultation as it does not at this stage affect service users as the funding will ensure that services are maintained to the current contracted level. Should the Council choose not to support that may result in a service reduction or change then a full IIA will be undertaken.

6. Legal Implications

- 6.1 The Council has previously entered into variation agreements with both Freedom Leisure and Wales National Pool Swansea.
- 6.2 The Council will need to ensure that it complies with its Contract Procedure Rules, procurement legislation and the terms of any government guidance when making decisions to extend relief and/or financial support.
- 6.3 The terms and conditions of relief/support agreed with operators will need to be recorded in legally binding agreements (or variations to existing agreements) to ensure that the Council's interests are fully protected.

7. Financial Implications

- 7.1 The total level of support required to support the increased cost of energy of our strategic partners for 2023/24 is likely to be a maximum of £1.43m in a worst-case scenario.

- 7.2 If cabinet were minded to proceed, the Section 151 Officer would recommend the cost be underwritten by release from the £15m fund that has been created specifically for energy price increases due to the unprecedented levels of energy price inflation. This fund will be available for Council Directorates (£6m), Schools (£6m) and Strategic Partners (£3m) to draw on where there is evidenced need. The current estimated allocation is shown in table 5.

Table 5: Energy Price Fund Estimated Allocation (Taken from the Revenue Budget Cabinet report 16.2.23)

Energy Pressure	£'000
Council Directorates	6,000
Schools – top up to in year budgets – but not delegated	6,000
Strategic Partners with potential high energy demands e.g. leisure centres, care homes, community groups focussing on “warm hubs”	3,000

- 7.3 The preceding financial implications rightly focus specifically on the considerations facing our partner operators. The wider financial position facing the Council must however be borne in mind and Cabinet must be mindful of any potential precedent created by granting further extensions to any one group of operators over another, even if potentially otherwise justified given the nature (strategic scale, importance of wider draw)

Background Papers: None

Appendices:

Appendix A IIA Screening Form